S. HRG. 99-22

NOMINATION OF BERYL WAYNE SPRINKEL

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

THE NOMINATION OF BERYL WAYNE SPRINKEL TO BE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS

APRIL 2, 1985

Printed for the use of the
Committee on Banking, Housing, and Urban Affairs

U.S. GOVERNMENT PRINTING OFFICE
46-108 O WASHINGTON : 1985

S241-9

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

JAKE GARN, Utah, *Chairman*

JOHN HEINZ, Pennsylvania
WILLIAM L. ARMSTRONG, Colorado
ALFONSE M. D'AMATO, New York
SLADE GORTON, Washington
MACK MATTINGLY, Georgia
CHIC HECHT, Nevada
PHIL GRAMM, Texas

WILLIAM PROXMIRE, Wisconsin
ALAN CRANSTON, California
DONALD W. RIEGLE, JR., Michigan
PAUL S. SARBANES, Maryland
CHRISTOPHER J. DODD, Connecticut
ALAN J. DIXON, Illinois
JIM SASSER, Tennessee

M. DANNY WALL, *Staff Director*
KENNETH A. MCLEAN, *Minority Staff Director*

CONTENTS

TUESDAY, APRIL 2, 1985

	Page
Opening remarks of Senator Heinz	1
Opening remarks of Senator Proxmire	8
Opening statement of Senator Dixon	22

NOMINEE

Beryl W. Sprinkel, Under Secretary of the Treasury	1
Long-term economic policies	2
Tax reform	3
Prepared statement	4
Credit to the Fed	6
Cited as a team player	7
Offers to academics	9
Results of high taxes	11
Response to written questions of Senator Heinz	13
Colossal deficit	16
Response to written questions of Senator Proxmire	19
Further reductions in interest rates	23
International debt situation	25
New tax law proposals	27
Growth rate of 3 percent	30
Gradual deceleration	31
Market—$100 billion a day	32
Encourage growth	34
Biographical sketch of the nominee	36

NOMINATION OF BERYL W. SPRINKEL TO BE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS

TUESDAY, APRIL 2, 1985

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 8:35 a.m., in room SD-538, Dirksen Senate Office Building, Senator John Heinz presiding.

Present: Senators Heinz, Hecht, Proxmire, Cranston, Riegle, and Sasser.

OPENING REMARKS OF SENATOR HEINZ

Senator HEINZ. The committee will come to order.

This morning the committee will have a hearing on the nomination of Beryl Sprinkel for the position of Chairman of the Council of Economic Advisers.

Mr. Sprinkel, it is the custom of the committee to swear witnesses for any such nomination hearing. Would you raise your right hand?

[Witness sworn.]

Senator HEINZ. Mr. Sprinkel, do you have any prepared remarks that you care to give?

Mr. SPRINKEL. I have brief prepared remarks.

Senator HEINZ. Please proceed.

STATEMENT OF BERYL W. SPRINKEL, UNDER SECRETARY OF TREASURY FOR MONETARY AFFAIRS

Mr. SPRINKEL. Thank you very much.

Mr. Chairman, Senator Proxmire, it is an honor for me to appear before you today as the President's nominee to be Chairman of the Council of Economic Advisers.

Mr. Chairman, I'd like to introduce to you and Senator Proxmire and others in the room, my wife Barbara, who is with me this morning.

During the past 4 years it's been my privilege to serve as the Under Secretary of the Treasury for Monetary Affairs. In that capacity I have been involved in a wide range of domestic and international economic issues and have worked closely with officials from other executive agencies, the Congress, foreign governments, and international agencies.

The experiences I have had and the personal relations that have evolved have resulted in a most rewarding and satisfying 4 years

for me and, particularly, I have appreciated and enjoyed the opportunity to participate on many occasions in this committee's semiannual review of monetary policy.

When President Reagan came to office in 1981, a primary goal was to revitalize the U.S. economy which was overburdened by the effects of record high inflation and interest rates, rising tax rates, and proliferating Government regulations.

LONG-TERM ECONOMIC POLICIES

The President's economic recovery program did not seek a cosmetic short-run relief to our economic ills; rather, it was designed to put in place prudent, long-term economic policies designed to reduce inflation and provide for sustainable real, economic expansion.

We are now enjoying the fruits of those long-term policies. Inflation in the past 3 years has been lower than during any time since the mid-1960's; interest rates are well below where they were in January 1981, although still too high; we are into the third year of an economic expansion which to date has been the strongest in 30 years; business investment is booming; productivity is up; and the proportion of the adult population that is at work is at a peacetime high.

In contrast to the late 1970's, the U.S. economy is again the envy of the world. Our efforts to restore sound noninflationary growth in the United States have provided an important stimulus to growth in other countries. We believe we have learned some important lessons about the effects of providing positive incentives and allowing free markets to work. These same principles can help other nations improve the dynamism and flexibility of their economies.

Other administration officials and I have worked closely with our foreign counterparts to encourage the design of policies that will promote noninflationary economic growth on a global scale.

The restoration of a strong U.S. economy has been reflected internationally in both a strong dollar and a growing trade and current account deficit. At the same time, the strong recovery in the United States and the strength of the dollar have provided considerable stimulus to European economic recovery and the growth in LDC exports.

We anticipate that efforts to restore growth in other countries with our encouragement will also help to strengthen foreign currencies relative to the dollar and improve our trade position. We have also emphasized that increased international access to markets plays an important role in contributing to global growth.

Another key international economic issue has been the debt crisis and the stability of the international financial system. The restoration of economic growth in the industrialized countries and sound adjustment efforts by the developing countries themselves have been two key elements of our approach to these problems. The economic situation in the developing countries has improved in the past 2 years although we still have some way to go before this problem can be put behind us.

Another key area of responsibility for me at the Treasury has been debt management, that is, our debt. We have pursued debt

management policies which, while achieving the immediate objective of providing necessary funds, also served to balance the Treasury's financing activities in the market and contribute to the liquidity and breadth of the government securities markets.

We introduced rather innovative financing techniques which we believe have expanded the investor base for Treasury securities while minimizing the cost of financing to the Government and to the taxpayers.

In addition, our efforts are ongoing to modernize cash management and processing procedures within Treasury and throughout the Federal Government. By 1988 annual interest savings will have grown to $3.5 billion. In total, over 5 years, these efforts are expected to save the taxpayer $9.1 billion.

This is a solid record of accomplishment for us all and the credit must be shared among the administration, the Congress, and the Federal Reserve. Obviously, problems and challenges remain.

One of our biggest challenges is to get the Federal deficit on a downward path. With outlays and tax revenues still close to their historic highs, we believe it is best for the economy if we accomplish this through spending restraint, along with sustained economic growth. This will enable us to reduce outlays gradually as a percent of GNP until they are brought more nearly into line with the rising revenues which economic growth will generate.

I know that all of you, along with your colleagues, are working hard to restrain spending growth and reduce the budget deficit in a way that is fair to all Americans.

We, in the administration, appreciate your commitment and are confident that with perseverance an acceptable bipartisan solution can be found.

TAX REFORM

The administration is also committed to working with the Congress on a fundamental and comprehensive tax reform plan. Our goal is a simpler, fairer system, one more conducive to economic growth and one which will eliminate the tax burden on taxpayers at or below the poverty level.

It is critically important that monetary policy be designed to protect the progress on inflation and ultimately to reduce the inflation rate further. Inflation is a pervasive deterrent to a healthy and prosperous economy.

Our commitment to restoring price stability must not waiver and it is important that our monetary actions consistenty convey that commitment to the financial markets.

Monetary policy at the same time should provide sufficient money growth to support sustained economic growth and avoid any undue monetary restriction of the economy.

These and other issues are the tough decisions and challenges the President and all of us will face in the months and years ahead.

I know the members of this committee share our desire to formulate economic policies that provide price stability and enhance economic growth and opportunity.

If confirmed as Council of Economic Advisers [CEA] Chairman, I look forward to working closely with this committee and the Congress in that economic policymaking process.

Thank you, Mr. Chairman.

Senator HEINZ. Mr. Sprinkel, thank you very much.

The committee has received your statement detailing the usual items for the record, and your statement as required by Presidential nominees will be a part of our complete record.

[The complete prepared statement follows:]

STATEMENT OF BERYL W. SPRINKEL

Mr. Chairman, distinguished members of the committee, it is an honor for me to appear before you today as the President's nominee to be Chairman of the Council of Economic Advisers.

During the past 4 years, it has been my privilege to serve as the Under Secretary of the Treasury for Monetary Affairs. In that capacity, I have been involved in a wide range of domestic and international economic issues and have worked closely with officials from other executive agencies, the Congress, foreign governments, and international agencies. The experiences I have had and the personal relations that have evolved have resulted in a most rewarding and satisfying 4 years. In particular, I have appreciated and enjoyed the opportunity to participate on many occasions in this committee's semiannual review of monetary policy.

When President Reagan came to office in 1981, a primary goal was to revitalize the U.S. economy which was overburdened by the effects of record high inflation and interest rates, rising tax rates and proliferating Government regulations. The President's economic recovery program did not seek cosmetic, short-run relief to our economic ills. Rather, it was designed to put in place prudent, long-term economic policies designed to reduce inflation and provide for sustainable real economic expansion. We are now enjoying the fruits of those long-term policies.

Inflation in the past 3 years has been lower than during any time since the mid-1960's. Interest rates are well below where they were in January 1981. We are into the third year of an economic expansion which to date has been the strongest in 30 years. Business investment is booming, productivity is up, and the proportion of the adult population that is at work is at a peacetime high. In contrast to the late 1970's, the U.S. economy is again the envy of the world.

Our efforts to restore sound, noninflationary growth in the U.S. have provided an important stimulus to growth in other countries. We believe we have learned some important lessons about the effects of providing positive incentives and allowing free markets to work. These same principles can help other nations improve the dynamism and flexibility of their economies. Other administration officials and I have worked closely with our foreign counterparts to encourage the design of policies that will promote noninflationary economic growth on a global scale.

The restoration of a strong U.S. economy has been reflected internationally in both a strong dollar and a growing trade and current account deficit. At the same time, the strong recovery in the United States and the strength of the dollar have provided considerable stimulus to European economic recovery and the growth in LDC exports. We anticipate that efforts to restore growth in other countries—with our encouragement—will also help to strengthen foreign currencies relative to the dollar and improve our trade position. We have also emphasized that increased international access to markets plays an important role in contributing to global growth.

Another key international economic issue has been the debt crisis and the stability of the international financial system. The restoration of economic growth in the industrialized countries and sound adjustment efforts by the developing countries themselves have been two key elements of our approach to these problems. The economic situation in the developing countries has improved in the past 2 years, although we still have some way to go before this problem can be put behind us.

Another key area of responsibility for me at Treasury has been debt management. We have pursued debt management policies which, while achieving the immediate objective of providing necessary funds, also served to balance the Treasury's financing activities in the market and contribute to the liquidity and breadth of the government securities market. We introduced rather innovative financing techniques which we believe have expanded the investor base for Treasury securities, while minimizing the cost of financing to the Government and the taxpayer. In addition,

our efforts are ongoing to modernize cash management and processing procedures within Treasury and throughout the Federal Government. By 1988, annual interest savings will have grown to $3.5 billion. In total, over 5 years these efforts are expected to save the taxpayer $9.1 billion.

This is a solid record of accomplishment for us all and the credit must be shared among the administration, the Congress, and the Federal Reserve. Obviously, problems and challenges remain.

One of our biggest challenges is to get the Federal deficit on a downward path. With outlays and tax revenues still close to their historic highs, we believe it is best for the economy if we accomplish this through spending restraint, along with sustained economic growth. This will enable us to reduce outlays gradually as a share of GNP, until they are brought more nearly into line with the rising revenues which economic growth will generate. I know that all of you, along with your colleagues, are working hard to restrain spending growth and reduce the budget deficit in a way that is fair to all Americans. We in the administration appreciate your commitment and are confident that with perseverance an acceptable, bipartisan solution can be found.

The administration is also committed to working with the Congress on a fundamental and comprehensive tax reform plan. Our goal is a simpler, fairer system, one more conducive to economic growth, and one which will eliminate the tax burden on taxpayers at or below the poverty level.

It is critically important that monetary policy be designed to protect the progress on inflation and ultimately to reduce the inflation rate further. Inflation is a pervasive deterrent to a healthy and prosperous economy. Our commitment to restoring price stability must not waiver and it is important that our monetary actions consistently convey that commitment to the financial markets. Monetary policy at the same time should provide sufficient money growth to support sustained economic growth and avoid any undue monetary restriction of the economy.

These and other issues are the tough decisions and challenges the President and all of us will face in the months and years ahead. I know the members of this committee share our desire to formulate economic policies that provide price stability and enhance economic growth and opportunity. If confirmed as CEA Chairman, I look forward to working closely with this committee and the Congress in that economic policymaking process.

Mr. SPRINKEL. Thank you.

Senator HEINZ. In addition there are a number of questions we usually ask of nominees such as yourself. In your case I understand that you have placed your assets in a blind trust with the Harris Savings and Trust; is that correct?

Mr. SPRINKEL. Yes, sir; that's correct.

Senator HEINZ. Will you make every effort in your service as Chairman of the Council of Economic Advisers not only to avoid conflicts of interest but to avoid even the appearance of conflicts of interest?

Mr. SPRINKEL. Yes, sir; I will.

Senator HEINZ. Do you agree to appear and testify before this committee and other duly constituted committees of the Congress when requested to do so?

Mr. SPRINKEL. Yes, sir. I agree and I look forward to it.

Senator HEINZ. The record will note you didn't even flinch when you answered that last question. [Laughter.]

Beryl, you are going to be the Chief Adviser to the President on Economic Policy. You have spoken at some length in your statement about that. The reason I forgot that is that you didn't have the opportunity yet to testify before this committee as you regularly have done in the past during our semiannual hearing on monetary policy.

What is your opinion of the current conduct of monetary policy? Are you satisfied with it or do you believe that there are adjust-

ments that should be advocated and made in order to ensure that we pursue the path of economic growth without inflation?

CREDIT TO THE FED

Mr. SPRINKEL. First let me say, Mr. Chairman, that I think the Federal Reserve deserves a lot of credit over the past 4 years for helping get our inflation under fairly good control. On average, they have reduced the rate of monetary growth and that, in turn, has contributed along with some other factors, in reducing the inflation rate.

From time to time, the administration has made suggestions concerning operating techniques which seem to be highly technical and perhaps even largely irrelevant.

The reason for those suggestions has been to attempt to bring about more stable growth in money. We have asked for moderate growth because it's only with moderate growth that you get inflation under control. We have asked for more stable growth because we believe that oscillation in monetary growth also induces oscillation in aggregate demand and economic activity in the short run.

You remember that beginning almost a year ago, perhaps from May until November of last year, there was a period of very slow growth in the money supply, something on the order of 1 percent per year, which we felt was insufficient. Fortunately it ended before it resulted in a recession, although there has been a significant slowing in economic activity.

Since the latter part of last year, November, there has been a substantial acceleration in money, running on the order of 11–12 percent, depending on the months you choose to measure. If that were to continue indefinitely it would be much too much money growth; it would take us back into inflation. I don't expect that it will continue indefinitely. In fact, the last 3 weeks have seen some abatement in that trend, some decline absolutely in the money supply.

So, at the present time I am quite happy with the monetary growth. Some portion of the recent spurt certainly tended to make up for the lack of growth in the prior months. The fact that we are now seeing some slowing, I think, is favorable. We would like to see in the future just what we wanted to see in the past, namely, moderate and more stable growth in the money supply.

Senator HEINZ. Beryl, this year it was reported that the administration wanted to abolish the Council of Economic Advisers. I assume that you oppose the abolition of the Council of Economic Advisers—I hope I'm correct in that—but you can confirm or deny that.

Do you, assuming I'm right, foresee an enhanced role for the Council of Economic Advisors under your Chairmanship and a role that would forestall future rumors or talk about abolishing the Council?

Mr. SPRINKEL. Yes; I do see an enhanced role for the Council of Economic Advisers. I was not privy to the discussions which took place which considered, among other options, eliminating the Council of Economic Advisers.

I personally think it would have been a mistake. I am very pleased that we are continuing the practice which has been modified a little bit over the years, but began in 1946, as a result, I believe, of the leadership of the Congress.

When I was first approached concerning my interest in that particular position, I indicated that it all depended—I said that if it were to continue in the low state that I perceived it had been, in terms of public respect or influence within the administration, I had no interest in the job; I'd rather stay in Treasury or go home. Either would be preferable.

On the other hand, I said that if it is restored to what I think is a legitimate role in the decision policymaking process of the administration, with frequent and periodic access to the President, I would be very much interested, and I was assured it was the latter.

So it was on that basis that I agreed to be considered and, if approved by this committee, I will do my best to restore the influence of that institution in the procedures of U.S. Government policymaking.

Senator HEINZ. Your predecessor, Martin Feldstein, developed a reputation for public disagreement with certain administration policies. You have been described as a team player.

As Chairman of the Council of Economic Advisers, if you disagreed with economic policies of the administration, would you express those disagreements publicly and would you be candid with this committee in your assessment of those policies?

CITED AS A TEAM PLAYER

Mr. SPRINKEL. The reason I think I have been cited as being a team player is that I came here deeply convinced that the approach chosen by candidate Reagan and President Reagan was the proper one, namely, a heavy emphasis on getting inflation under control with a disciplined monetary policy; a heavy emphasis on reliance on free markets; an effort to deregulate in many of those areas where, over time, the regulations had become counterproductive; a commitment to a limited role for the Federal Government—an important role but nonetheless limited--so we can allocate more resources to the private sector; and a commitment to a system that provides incentives for savings, working, and investing. And on the whole, it seems to me that's exactly what we have been doing over the past 4 years.

That's why I've been so delighted to have this opportunity to participate.

Therefore, I do not anticipate that I will be moving off in separate directions from the President. I will certainly argue very hard within the administration for my point of view. I'm not exactly known as a patsy in terms of giving up on what I think is right.

On the other hand, I think it's very important that after the President of the United States, who is the only elected official—I'm an appointed official—makes a decision, that I support that effort. Now, if a lot of the decisions were to go against me over time and I become very uncomfortable, I'll leave. I don't go on a separate agenda publicly.

Senator HEINZ. Very well, Mr. Sprinkel.

Beryl, thank you for your remarks.
Senator Proxmire.

OPENING REMARKS OF SENATOR PROXMIRE

Senator PROXMIRE. Dr. Sprinkel, we're happy to have you before us. You come in a most unusual position. In all the years I have been in the Senate, more than 27 years—I don't recall a situation in which a President has virtually permitted a statutory agency created by the Congress to die, and that's what happened to the Council of Economic Advisers. There's nobody left. You are the first appointee to the Council. You would be the Chairman. If the Council is not dead, it certainly has been comatose until you begin to breathe a little life into it. It's tragic, because the Council, I think, has been an extraordinarily useful instrument.

As you say, it was created in 1946, and since that time, it has contributed greatly to a wiser economic policy on the part of the President. People like Arthur Burns, Walter Heller, Paul McCracken, Herb Stein—many eminent economists have contributed to an understanding by the President. No President that we have had in my experience has any real economic training, and I think the economics profession has a great deal to lend to a President. Perhaps John Kennedy was the best example of the utility of a vigorous and competent Council of Economic Advisers. He learned a great deal from Walter Heller.

But the Council has been inactive the last several months, and now you have an opportunity to revive it. It's a big challenge for you, and you certainly have the intellectual capacity, the background, the experience, the self-confidence to do a real job here.

But I am deeply concerned. It will test you; it will be hard to do. You have to apparently convince the President, who isn't very sold on the economics profession and what the economics profession can tell him. You'll have to convince them that you can contribute. And I think you can.

Will you have an opportunity to determine who your colleagues will be on the Council of Economic Advisers?

Mr. SPRINKEL. I certainly will have a major input, Senator Proxmire. Whether or not my first recommendations will be accepted, I really don't know. I would expect that they would be. but that remains to be seen.

Senator PROXMIRE. I am concerned about the way this particular nomination has been handled. As I say, the President has seen fit to leave the Council vacant for nearly 9 months; suddenly, there seems to be an unseemly haste to get you confirmed. Your nomination was not received in the Senate until last Friday; your personal nomination form, required of all Presidential nominees was not available until yesterday morning. And here we are having a hearing at the highly unusual hour of 8:30 in the morning, which under our committee procedures is a violation of the rules, because they allow members 5 days to review your form.

Am I missing something? Is there something going on over at the Council that requires this committee to bend its rules to get you confirmed as quickly as possible?

Mr. SPRINKEL. Senator Proxmire, I think one of the problems is that not only has there not been a chairman for many months, but as of last Friday, there is now no member. Therefore, some of the staff have left, I am sure others are somewhat discouraged. From our point of view—certainly, my point of view—I want to express my appreciation for the willingness of this committee to take some rather unusual actions to make it possible for me to begin the very, lengthy and difficult, but nonetheless challenging and, I hope, rewarding process of rebuilding. And of course, until I am confirmed by this committee and by the Senate, there is not much I can do in the way of rebuilding. I have no authority to do so.

Senator PROXMIRE. Why was there this rush, though? We're waiting for 9 months, and all of a sudden, wham bang, we have the nomination before us only a day or so, not the 5 days required for us to have the staff carefully review your background.

Now as I say, I know a great deal about you, and so do many other people up here, but the procedure just seems to be in violation.

OFFERS TO ACADEMICS

Mr. SPRINKEL. There is one other problem that I certainly can mention that will be helped by speedy action. I am told by my academic friends that unless offers are made to senior and junior staff economists—and there will be the necessity of replacing most of them, all of the juniors and most of the seniors—unless those offers are made by the middle of April, the odds are very high that those academics—most of them will be academics—will have already committed for their fall teaching or research projects.

Then they will have the complicated problem of unwinding. Therefore, from my point of view, I am especially pleased because if I can get over there in the next 2 or 3 weeks, I will be able to extend those offers and get the commitments and start the rebuilding process.

Senator PROXMIRE. As Chairman of the Council, will you report directly to the President or will you report to Mr. Regan or to someone on Mr. Regan's staff?

Mr. SPRINKEL. Well, it's my understanding, legally, I report to the President, but as a practical matter, Secretary Regan controls the staff, and I would expect to approach the President through Secretary Regan, with whom I have worked very effectively now for over 4 years.

Senator PROXMIRE. Well, as you say, the law is very clear. It says—and I quote from the law—"To assist and advise the President in the preparation of the economic report." And then it says, "To compile and submit to the President studies, and to make recommendations to the President to develop and recommend to the President national economic policies to foster and promote free competitive enterprises," and so forth.

And if you don't have, as you put it earlier, in answer to the Chairman, access to the President on a regular basis, it seems to me the Council won't function very well. Remember, at one point, it was Mr. Regan, the Secretary of the Treasury who, when asked

about the Council of Economic Advisers report, said "You can throw it in the ashcan."

Now if that is Don Regan's view of the Council of Economic Advisers, and you report to him, I am not very optimistic about what kind of influence you or the Council are going to have on the President.

Mr. SPRINKEL. As I indicated, I have been assured of regular and frequent access to the President, and I have been assured that by Secretary Regan, so I am quite certain that that will occur. I have worked with him long enough to know that when he tells you something, you can depend on it.

Senator PROXMIRE. Now many people feel the former Chairman of the Council, Feldstein, was too outspoken in criticizing the budget deficits. They say he should have been more of a team player, kept his disagreements private, or else he should have resigned.

What is your view on how Mr. Feldstein behaved? Did he do the right thing, and would you do the same in similar circumstances?

Mr. SPRINKEL. Senator Proxmire, I prefer not to comment on how other people conducted themselves in that office. However, I am very pleased to tell you how I plan to conduct my own relationship to that office. As I indicated to Chairman Heinz, I expect to fight very hard inside the administration for the views that I and my staff have and they will be presented to the President as important options. I usually win, but sometimes I lose. If I lose, I expect to support the decision of the President of the United States. I do not believe that I, as an unelected official, should have a separate agenda, separate from the one that the President is presenting to the American people and to the Congress.

Senator PROXMIRE. I have a number of other questions. I'll just ask one before I yield, and then I want to come back with some of the others.

The Council of Economic Advisers has a special relationship with an institution that was created at the same time, the Joint Congressional Economic Committee. I have served on that committee for 25 years, and that committee relies very, very heavily on the Council of Economic Advisers. I presume that you would be willing to testify at their request and permit your Council of Economic Advisers colleagues also to testify.

Mr. SPRINKEL. Yes, sir.

Senator PROXMIRE. And then I think that is very, very important to the committee and the committee's functioning, and I earnestly hope that you will have the closest kind of relationship with that committee.

Mr. SPRINKEL. I have had the pleasure many times, when I was a private citizen, of testifying before that committee with you chairing it; and I look forward to testifying before the committee as Chairman of the Council of Economic Advisers, if approved by this committee.

Senator PROXMIRE. Thank you, Mr. Chairman. I have other questions.

Senator HEINZ. Thank you very much. Senator Cranston.

Senator CRANSTON. Good morning.

Mr. SPRINKEL. Good morning.

Senator CRANSTON. Your statement at the outset would indicate that you believe that we can cope with the deficit by restraining spending and growth without any moves toward what is called revenue enhancement.

Is that an accurate reflection of your view?

Mr. SPRINKEL. Yes, sir; that is my view, and I would be very pleased to tell you why it is my view if you are interested.

Senator CRANSTON. If you would briefly, yes.

Mr. SPRINKEL. Yes, sir.

I do not believe we can grow out of this deficit alone, nor do I believe that cutting spending is likely to be sufficient. I think we need both.

Some have proposed, of course—and I understand that—that reducing the deficit is too big a task for growth and spending restraint; that we should also have revenue enhancements or tax increases.

The reason I do not prefer that approach is very simple. Through most of my life, having watched the Congress or any other group—groups I have been a member of—it is very clear that the more revenues come in, the more spending occurs. This is the way our system works.

RESULTS OF HIGH TAXES

Second, taxes inevitably restrain incentives to either save, to work, or to invest. As marginal tax rates tend to rise, they create more incentives to take leisure or to do something else, not economically desirable. I therefore fear that trying to solve this problem through the tax route would result in something that I would not prefer: that is, a larger Government as percentage of the GNP and a weaker private economy.

My own view is that we should encourage the private economy, because this is where the great performance in the past has been, and that we should keep restraints on Government.

The budget the President has presented does not result in sharp reductions in total Government spending. It just slows the rate of growth, and I think that is a solution that can get us gradually toward financial stability.

And we are verging on big problems at the moment, with a $222 billion deficit estimated for this fiscal year.

Senator CRANSTON. Do you believe that if a successful modified flat tax, some amalgam of Bradley-Gephardt, Kemp-Kasten, and the Treasury plan, old or new, is achieved, with the effect of reducing credits, deductions, exclusions, and loopholes, and lowering the rates generally, will lead to greater productivity and to greater growth in the economy?

Mr. SPRINKEL. Yes, sir; I do. I participated, along with other senior officials in Treasury, working with Secretary Regan for many months on the Treasury tax proposal. I have not worked with Secretary Baker over the last few weeks. He has been concentrating in working, I understand, with various Members of the Congress.

But for the first time in my lifetime there is a growing consensus in parts of both parties, as well as the administration and the gen-

eral public, that we need to reduce marginal tax rates to provide additional incentives and that we need to treat various industries similarly; that is, the decision to allocate in the private sector more capital to individual industries should not be determined primarily by a favorable tax break, but should be determined primarily by the prospective rate of return. In addition, individuals with similar incomes should pay similar taxes.

I believe our tax system has become much too complicated. I haven't, I must confess, worked out my own tax return for many years. Of course I haven't had the privilege since I have been here. But I didn't do my taxes before. I hired somebody because it is so complicated. I could have done it, but it would take too much effort; and most people are in the same situation. There is therefore a general concensus that the tax system should be simplified.

I also believe it is fair to remove the taxation from the very poor. For all of these reasons, I am very strongly supportive of the efforts by Secretary Baker and Members of both parties in this Congress to try to work toward a modified flat tax, which I believe is supported by the American people.

Senator CRANSTON. Thank you very much.

Mr. SPRINKEL. Yes, sir.

Senator HEINZ. I am going to submit, Beryl, some questions for you to answer in writing for the record, and I call on Senator Proxmire.

[Response to written questions of Senator Heinz follows:]

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ
FROM BERYL W. SPRINKEL

1. Q. You have been at the center of negotiations to open the Japanese market for U.S. services and investment and to create a freer flow of capital in and out of Japan. How would you assess the success of these negotiations?

A. In my view, considerable progress has been made since Treasury and the Japanese Ministry of Finance first began the Yen/Dollar discussions. Japan has begun the process of deregulating domestic interest rates; a framework has been established for developing a Euroyen market along the lines of the other Eurocurrency markets; and new business opportunities are being made available to non-Japanese firms operating in Japan. So far, Japan has taken all of the agreed steps on or before the deadlines specified in the Yen/Dollar Report. Taken together, these measures will contribute significantly to increasing the availability and appeal of yen-denominated instruments to foreign investors.

Of course, much remains to be done before the Japanese financial system is as open as we desire, and, in some cases we would like the Japanese to take more rapid action. For example, I would like to see deregulation of Japan's domestic interest rates occur more rapidly than the two to three year timeframe for large denomination accounts agreed to in the Yen/Dollar Report. Treasury is monitoring the agreement very carefully to ensure that progress continues to be made.

2. Q. Do you think the President needs new tools with which to open Japan's market not only to services and investment but also to agricultural products and merchandise trade?

A. No. The President now has an array of tools in many areas including foreign policy, domestic legal authority, and international agreements. The President's powers in this area are now sufficiently broad to make us credible in negotiations with Japan on opening its markets.

3. Q. It has been argued that the high value of the dollar is a major reason for our increasing deficit with Japan, but that problem preceded our current deficit, and, I suspect, will be there long after the U.S. dollar has depreciated in relation to the yen. Germany and Korea -- both great trading nations -- have similar problems increasing their market share in Japan despite the fact that their currencies have depreciated in relation to the yen. How do you explain their lack of success if our major problem with Japan is the strong dollar?

46-108 O—85——2

A. The most likely explanation is that Japan has barriers that prevent imports from all nations. We believe formal or informal Japanese barriers are inhibiting the share of imports in the Japanese economy. It is for this reason that the Administration initiated the market-oriented sector-selective (MOSS) talks with Japan. Under the MOSS approach, we are working to eliminate all types of Japanese barriers to imports initially in four key sectors of export interest to the United States (telecommunications, electronics, forestry and medical equipment and pharmaceuticals).

4. Q. To put it another way, could you make a rough estimate as to how much of our trade deficit with Japan is attributable to the strong dollar and how much to Japanese protectionism?

A. No. To make such an estimate, one would have to know the "correct" yen/dollar exchange rate. I do not believe it is possible to establish a priori what that rate is; the market must decide.

5. Q. It has been shown that the U.S. trade deficit is not primarily due to a surge in imports but rather to a relative decline in exports, with export growth being far less than import growth. Why then is the Administration recommending a cut in Export-Import Bank direct credits and why is there no more being done to help stimulate trade credits to the LDCs where the greatest drop in exports has occurred?

A. The need for direct export credit subsidies has dwindled as a result of the Reagan Administration's success in negotiating international arrangements which have significantly reduced export credit subsidies. In 1983, Treasury negotiated improvements in the OECD Arrangement on Export Credits which effectively eliminated direct interest rate subsidies in official trade credits to industialized countries, and significantly reduced the trade credit subsidies to developing countries. Treasury has also negotiated (1) an arrangement with other OECD countries to limit export credit subsidies for nuclear power plant and equipment, and (2) an understanding with producers of large commercial jet aircraft to limit trade credit subsidies for such aircraft. The demand for Eximbank direct credits fell to less than $800 million in FY 1983 and rose to $1.5 billion in FY 1984, both far less than Congressional authorizations of $3.8 billion in both years.

The Administration has proposed the elimination of Eximbank's direct credit program for FY 1986 and a greater reliance on the Bank's guarantee and insurance programs. However, the Administration's budget proposal still allows the Bank to offer competitive financing when necessary, through an interest rate buy-down program for $1.8 billion of guarantees and, in order to assure access to financing, a total of $12 billion in guarantees and insurance authority.

Exports to LDCs supported by U.S. direct credits declined during the last few years primarily because of the slow down in the global economy and the debt problems facing developing countries, particularly our major trading partners in Latin America. However, the U.S. economic recovery and the corresponding increase in imports from developing countries have provided needed foreign exchange to support essential imports by developing countries. In addition, the U.S. Export-Import Bank has continued to provide direct credits in addition to guarantees and insurance to support U.S. exports to debtor countries, even though other Export Credit Agencies have reduced cover, as long as those developing countries have taken the necessary adjustment measures either under IMF programs or on their own.

Senator PROXMIRE. Thank you, Mr. Chairman. I will be brief. I just have a few more questions.

Senator Cranston asked you about this briefly, I think, but on a scale of 1 to 10, how important is it to reduce and ultimately close our Federal budget deficit?

Mr. SPRINKEL. With 1 being the most important and 10 the least important? Is that the way you want to measure?

Senator PROXMIRE. Do it the other way.

Mr. SPRINKEL. Oh, the other way; all right.

Senator PROXMIRE. Ten being the most important.

Mr. SPRINKEL. I think I have to say 10, if you mean it is time to start and not procrastinate and say we will do it next year, I do not think it is that important to close the deficit overnight.

Senator PROXMIRE. When I say 10 to 1 or 1 to 10, I am talking about the importance of closing the budget deficit compared to other policies we might follow—other economic matters that might or might not be more urgent.

Mr. SPRINKEL. The real risk of keeping the deficit so high is that under some set of circumstances, if we were to have difficulty financing that debt—which we haven't had and I don't predict, but it could happen—there will be a great temptation to finance part of it with our friendly organization down the street, the Federal Reserve, and that would be a threat to move back into inflation.

Deferring action on the deficit also means that we defer a careful review of what Government should do and how much it should do; therefore we defer the release of resources to the private sector of the economy.

So I think it is extremely important that we begin. The pattern that is projected by the present proposals before the Congress of getting down to a deficit on the order of 2 percent of GNP by 1989 seems to me to be reasonable.

We are now suffering a fairly large deficit as a percentage of GNP, in excess of 5 percent. I think I have lived long enough to remember when we had a few balanced budgets: Harry Truman had a few; I think Mr. Eisenhower had one; there was one, I believe, in the year overlapping Presidents Johnson and Nixon; and there have been very few others. I think we ought to strive to move in that direction.

Senator PROXMIRE. There have been three really deep concerns. One is that the burden that we leave for our children and grandchildren is a colossal national debt, now $1.65 trillion, moving up rapidly at the end of next year close to $2 trillion.

COLOSSAL DEFICIT

Another is that if the Federal Reserve Board follows its neutral policy, the increase in interest rates.

And the third is if we can't do any better in a period of exuberant recovery—as you said, the best in 33 years—we are still running a colossal deficit.

What happens if we move into a recession? Do we get a $300, $400 billion deficit? Then what happens to the national debt?

Mr. SPRINKEL. I agree with you. We now have a deficit for which the estimate, I believe, is $222 billion for this year. We are into the

third year of an excellent economic recovery and still we have a $220 billion deficit. You are right; if we don't start, it will be over $300 billion. If you start at $222 billion and imagine anything like a serious recession, you could imagine deficits in excess of that amount.

So I think it is very important to start now.

Senator PROXMIRE. What really makes me concerned is the fact that I think one reason—and I would like to get your reaction—the one reason why we had the best year in 33 years in 1984, that we had back-to-back-to-back deficits of an enormously high amount, $105 billion in 1982, then $195 and $175 billion, one, two, three. Obviously, that has a stimulative effect on the economy, and as we come down off of this high, isn't it likely we will move into a period of slower, stagnated growth and perhaps a period of recession?

Mr. SPRINKEL. Senator Proxmire, I am well aware of the fact that many people believe—certainly, even many more used to believe—that deficits stimulate economic activity. I, along with lots of other people in the economics profession, have tried to find the evidence supporting that argument. At one time it was generally believed that changing fiscal policy was the major influence on aggregate demand, nominal demand. I recently had the opportunity to read the last revision of Prof. Paul Samuelson's famous and long-lived text. To my amazement, and I guess a little pleasure, I noted that he now argues that it is not fiscal policy that is a major determinant of total spending; it is monetary policy. He alleges that there have been changes in the last 25 or 30 years that bring that about.

I also believe that it is changes in money that have—not the only, but the major—impact on aggregate demand. Hence I am very suspicious of the argument that the deficits have accounted for our prosperity.

What I think has accounted for our prosperity is renewed incentives on the supply side, to save, to work, to invest, through reducing marginal tax rates, through making it profitable to invest, through deregulation which encourages the flexibility of our economy, and through somewhat better control over money growth than we had during the last decade.

So I guess I am not at all convinced that the deficits have accounted for our prosperity. I think we have had the prosperity despite the deficits.

Senator PROXMIRE. But aren't you concerned if we come off a $200 billion deficit or $222 billion deficit to $180 billion and then to $130 billion and then below $100 billion, we will have to have a monetary policy that will be explosively inflationary? Has that been the history of country after country in the past and in the present, too, when they run enormous deficits, that inflation is a constant companion, that that is likely to be the product of the kind of mix you have to have with monetary policy and fiscal policy to get out of this?

Mr. SPRINKEL. I would agree that if you look around the world, especially at developing nations—and I'll explain why that is true—there tends to be a relationship between how fast their money supply grows and the size of their deficit.

Now, in our case we have an option, because we're a large country. Capital flows across our borders. But if you go to the developing world, they typically do not have a balancing option. Therefore, if they run a large fiscal deficit, typically it must be financed by their central bank. As a result, they have an exploding money supply at the same time as they have a large deficit.

I thought the early part of your question was meant to imply that if we make progress in getting our deficit down, that that might threaten the growth in our economy. My answer is no, that we should continue to have moderate growth in the money supply. If that occurs, I would expect moderate growth in total aggregate demand and therefore a continued downward trend in unemployment and continued improvement in profitability and investment.

So I see nothing inconsistent between maintaining a sustained economic recovery, which is what we all want, so we can make even further progress on unemployment, and at the same time reducing the size of our deficit. Just as it did not provide the health of our economy today, reducing it won't destroy the health of our economy tomorrow.

Senator PROXMIRE. Now, Dr. Sprinkel, I want to congratulate you. You're a real cock-eyed optimist. [Laughter.]

Senator HEINZ. I just hope and pray you're right.

Mr. SPRINKEL. Thank you, sir.

Senator PROXMIRE. Because if you are right we will have a happier country. But I just cannot believe for the life of me we won't have to pay a price for these collossal deficits and a big price, and if we follow a policy of reducing the deficit, over the years in my judgment, we're likely to have a recession and the temptation will be to push monetary policy, which I think will be inflationary. If we don't do that, I think we'll have several years of the deepest recession and depression this country has ever seen. But I hope you're right and I'm wrong. Dr. Sprinkel I am going to submit some questions for you to answer in writing for the record. Thank you.

[Response to written questions of Senator Proxmire follows:]

RESPONSE TO WRITTEN QUESTIONS OF SENATOR PROXMIRE
FROM BERYL W. SPRINKEL

1. Q. You list in your statement of nominees that one of your major accomplishments during your service at the Treasury Department was "heading the U.S. team which negotiated the yen/dollar agreement with the Japanese to open their capital market and internationalize the yen." In May of 1984 when that agreement was signed, the yen was in the range of 223 to 246 yen to the dollar. Then Secretary of the Treasury, Don Regan, said the agreement would over time strengthen the yen in terms of the dollar. Don Regan was wrong. Today I note that the yen has, in fact, weakened against the dollar. Today it is 250 yen to the dollar.

It is reported that in a November, 1984 press conference in Tokyo you said there were "very troublesome signs" of violations by the Japanese of the spirit and letter of the May agreement.

Can you comment on the purpose of the May 1984 agreement, whether you think it will weaken the yen in terms of the dollar and whether the Japanese are living up to that agreement?

A. I think there have been some misperceptions about the purpose of the yen/dollar discussions. Our primary objective was to change the environment in which the exchange rate is determined from one based on government regulations and administrative controls to one governed by market forces. To do this, we believed it was necessary to seek full deregulation of Japan's domestic capital market, to increase the range and appeal of yen-denominated instruments available to international borrowers and investors, and to improve access to the Japanese market for foreign financial institutions. However, it will take some time for these steps to be carried out fully and for markets to develop before the value of the yen is determined by the free play of supply and demand. We cannot be any more specific about how long this process will take, since liberalization measures are being phased in gradually and one cannot predict how much additional time it will take for the yen market to develop the necessary depth, breadth and liquidity.

Regarding the yen/dollar exchange rate, I am confident that over time the measures agreed to in the Yen/Dollar Report will help strengthen the yen against the dollar by making the yen a more attractive and more freely available currency for international use in trade and investment. It should be borne in mind, however, that there are many other factors that influence exchange rates. These include domestic economic policies and international perceptions about countries' prospects for non-inflationary growth, as well as international political events.

With regard to recent exchange rate movements, it is true that the yen weakened throughout the remainder of 1984 and in early 1985. However, it is not often recognized that the yen has remained stronger against the dollar than any other major currency. As of yesterday's New York close (April 1, 1985), the yen had declined about 8.5 percent against the dollar since last May. Over the same period, the DM, French franc and Sterling were all down 12-13 percent against the dollar, while the yen was up some 4 to 5 percent against these European currencies.

In response to the last part of your question, I believe the Japanese are living up to the commitments made in the Yen/Dollar Report. Japan has carried out all of the agreed steps on or before the deadlines specified and, indeed, taken some additional steps beyond what was required under the terms of our agreement. Nevertheless, there are some areas where we think Japan could take more rapid action or where we have had some differences of opinion over the details of the implementation. This does not alter my view that considerable progress has been made, but our objective has been, and remains, to make as much progress as possible.

2. Q. Following-up on the May 1984 Yen/Dollar agreement, I note that in June 1984 at a Banking Committee hearing on the high value of the dollar, Mr. Bergsten, a former Treasury official, said that the May agreement would weaken the yen by "encouraging more capital outflow from Japan." In December 1984, Dr. Jeffrey Frankel, a former aide to Dr. Feldstein, when he was Chairman of the Council of Economic Advisers, criticized your May 1984 agreement and said the weakness of the yen is caused by an outflow of capital attracted by high U.S. interest rates. He said your May 1984 Yen/Dollar agreement only exacerbated that problem by encouraging more capital outflow from Japan.

Do you have any comment on these criticisms of the agreement you engineered?

A. These criticisms seemed to be based on the misconception that the goal in the yen/dollar discussions was simply to strengthen the yen against the dollar in the short-term. We do believe this will occur over time, but our immediate objective was to liberalize Japan's financial policies and increase the international use of the yen so that its value will be determined by the free play of supply and demand for the currency. For this market mechanism to work, it is necessary to liberalize both inward and outward capital flows.

Some of the measures facilitating capital outflows were scheduled to go into effect before other measures that encourage capital outflows. It should also be kept in mind that Japanese investors already have a considerable appetite for foreign investment, while international demand for yen will take longer to develop since, historically, the yen has been a difficult currency for investors to deploy. However, I think Japanese investors' access to foreign capital markets is unleashing additional competitive pressures that will help promote more rapid financial market deregulation in Japan and make the yen a more attractive currency to foreign borrowers and investors.

3. Q: During your early years in the Treasury, you were a persistent critic of the Federal Reserve. You were especially critical of quarterly deviations from the Fed's monetary targets which you argued were making the business and financial community nervous. Do you plan to continue your oversight and criticism of the Federal Reserve from your new vantage as Chairman of the Council of Economic Advisers?

A: The goal of stable and within-target evolution of the monetary aggregates derives its importance from the significant and pervasive effects which money and monetary policy exert upon the economy. Monetary policy actions do not impact upon all economic sectors either at the same time or with the same degree of intensity. Because of this, a stable growth in money can enhance the stability of growth in overall economic activity, and minimize instability in interest rate-sensitive sectors as well. Maintenance of within-target money growth is therefore necessary to achieve this result.

Given the long-run association between money growth and inflation, within-target money growth can also exert a salutory effect on future inflation and on current expectations of inflation. This in turn will provide the basis for achieving a more desirable level of long-term interest rates.

As Chairman of the Council of Economic Advisers, I will continue to accord to monetary policy developments the importance which they deserve. While reasonable people can, of course, differ at times on policy issues, I look upon such occasions as an opportunity for building a constructive consensus and enhancing policy coordination between the Administration and the Federal Reserve.

Senator HEINZ. Thank you.

Senator Riegle.

Senator PROXMIRE. Sorry to interrupt, but Senator Dixon wanted to be here. His plane doesn't get in until 9:30. He's a great friend of yours. He has a statement that he's known you for years. Of course, he's from Illinois and he claims you're not really from Missouri, you're really from Illinois. He said all your formative years were in Illinois, in Chicago and so forth, and he's very proud of you as one of his constituents. So he says all that and a lot more in his statement.

Senator HEINZ. Without objection.

[The complete prepared statement of Senator Dixon follows:]

STATEMENT OF SENATOR DIXON

Mr. Chairman, I am pleased to have this opportunity to introduce Beryl Sprinkel to the Senate Banking Committee. I know that Dr. Sprinkel has been before the Banking Committee on numerous previous occasions. However, this is an appropriate occasion to remind the committee that he is a distinguished Illinoisan.

Now some may recall that Beryl Sprinkel was actually born in Missouri. I don't dispute that fact. I am fond of Missouri myself, since St. Louis, MO, is right across the river from my own home in Belleville, IL. But while Missouri may claim him as a native son, I think it is worth pointing out that he has spent virtually all of his working career in Illinois. So though he was not an Illinoisan by birth, he managed to rectify that oversight and became an Illinoisan by choice.

I will not take time this morning to detail Dr. Sprinkel's background for the committee. I know he has supplied detailed biographical information. Let me just briefly say that that he spent close to 30 years working for a major Illinois financial institution, Harris Savings & Trust, of Chicago, IL. It was during this year at Harris that I came to know him.

I cannot say that in the years since I first came to know him that we never disagreed. I am a life-long Democrat, and Beryl is a Presidential appointee and currently Under Secretary of the Treasury for Monetary Affairs, which should indicate that he is at least leaning toward the Republican Party. That mistake aside, however, I have always found him to be a man of intelligence and integrity, a hard working and disciplined thinker, and a first-rate banker and economist.

In short, I respect Beryl Sprinkel. He has been a strong and highly motivated Under Secretary of the Treasury. I am confident he will provide candid advice to the President in his new position, as he has in the past.

I believe he has a tough job in front of him. Even though we are in the third year of economic recovery, Federal deficits are still out of control. As Chairman of the Council of Economic Advisers, Dr. Sprinkel will have an important, indeed, a vital, role in assessing the effects these deficits are having and will continue to have on the economy until we restore much-needed discipline to the Federal budget.

I look forward to hearing his views on budget problems and solutions. I am pleased that the President has nominated him as Chairman, that vital post has been left open far too long already. I believe that Dr. Sprinkel will make a capable and effective Chairman. I know he will be even more valuable to the President in his new position than he was in his current post, and I know that even though there may be disagreement at times, that he is a person who can work with the Congress toward the objectives that we all share—a balanced Federal budget and a strong and ever-growing economy.

Senator RIEGLE. Good morning, Mr. Sprinkel. There are just two things I want to get into. I have been reviewing your statement here.

First, I'm wondering how much room you think there is over at the Fed now for monetary easing on their part, in light of the fact that we're still some distance from a budget package or a compromise on the package that might get the deficits down? As you look at the Fed today, how much maneuvering room do you feel they have in the way of easing credit and trying to bring interest rates down further?

Mr. SPRINKEL. Senator Riegle, the word easing is subject to some ambiguity: there are at least two senses in which it is frequently referred. One is how much room is there for getting interest rates down, which is a legitimate way of talking about easing. Another is how much room is there for increasing the money supply, which is another definition of easing.

FURTHER REDUCTIONS IN INTEREST RATES

On the first point, do we have room for further reductions in interest rates in the period ahead, I think the responsible answer is yes. We have made major progress in getting the inflation rate down and getting interest rates down. Inflation has declined, however, more than inflation expectations, this is the usual pattern. Therefore, even though progress has been made the decline in interest rates has not been as much as inflation. Because inflation expectations greatly affect the existing and prospective rates of interest, if we continue to make progress in keeping the inflation at its present level or at a little lower level, I think there is substantial room for further decline in interest rates.

Now, I want to qualify that to a modest extent. Economic theory tells us that over a period of time interest rates will be equal to the prospective rate of return on capital investment. We have taken action over the past 4 years—and we include the Congress and the administration—to raise the prospective rate of return on capital investment. Witness the fact that despite relatively high real interest rates, capital spending has risen at a pace more than double the previous postwar recoveries, suggesting that the prospective rate of return has been substantially improved.

Therefore, I don't expect the real rates of interest to go back to the levels that existed in the 1970's, when part of the time they were negative. But I think there is still room for interest rates to come down further in the period ahead if we keep inflation under control.

Now, in the second sentence that you mentioned——

Senator RIEGLE. Money supply.

Mr. SPRINKEL. I reviewed briefly within the context of a previous question that, from last spring until last fall—a period of 5 or 6 months—there was very low growth in the money supply, about 1 percent a month, which I thought was inadequate, and which, if continued, could have led to a possible recession.

Since that time, beginning in October or November, and continuing up until very recently, there has been a very rapid rate of increase. Part of it can be interpreted as making up for the earlier shortfall. If it were to continue, let's say, at the 12-percent annual rate which it has been averaging during much of that period, it would be much too high because it would bring us higher interest rates and higher inflation.

But as I indicated previously, over the past 3 weeks there is some evidence that the money supply has come down a little. The Federal Reserve will be working toward the upper end of their target and, therefore, I am not concerned at the present that monetary policy is too expansive; but I also don't think there is any room to accelerate money growth further at the present time.

Now, I would hope that in the period ahead, we can have somewhat more stable money growth and that we keep it on the moderate side, and 12 percent isn't very moderate.

Senator RIEGLE. I was at a conference the other day with some leading economic theorists—I won't name names, but they would be very familiar to you—and they basically took the view that the deficit is not really the target to keep our eye on here in terms of macroeconomic policy management in the near future; that, instead, three things need to happen: One, the Fed needs to ease further, presumably increase the money supply; two, that we need to have the tax reform package passed; and three, there needs to be a move to the gold standard, and if these things were done in combination, the deficit would in a sense, be a self-liquidating problem. A real spurt of additional growth would occur and the deficit would start to disappear simply because of the fact the economy would get rid of them.

How would you respond to that?

Mr. SPRINKEL. I agree with one of the three points; that is, that tax reform along the lines on which the Congress is now working would greatly improve longer term prospects for the reasons I mentioned.

Further easing of the Fed, if you mean by that more rapid growth in money, is a siren song that in the very short run would be very pleasant. I have been through that many times and I know how they feel.

At first, unemployment would go down, production would go up, and we'd say isn't this marvelous, we've solved the problem. Then inflation and interest rate would zap us and we'd be back in the same mess from which we extracted ourselves over the past 4 years. And I think that would be a horrible tragedy because going from high inflation to low inflation is not costless. It's very costly.

Senator RIEGLE. By no means. You're telling me. I'm from the Midwest. We have been through it.

Mr. SPRINKEL. So am I; I lived in Chicago most of my adult life. It's been very painful for that part of the world and I don't want to go through it again, having now achieved lower inflation rates.

I can understand why many people think the gold standard is the right solution. It has certain advantages; there's just no doubt about it. It forces upon policymakers some discipline that might not be there otherwise. The only difficulty is that historically when that discipline begins to bite, the policymakers frequently change the rules, so there's no assurance that you would achieve the discipline.

We had a Gold Commission in the Treasury about 4 years ago and we went through all the literature we could find and reviewed the history. The conclusion of that Commission, which included gold standard advocates as well as others, was that, at least at the present time, it does not make sense to go back to a gold standard. And that's also my view at the present time.

Now, the thing that's missing from this list of three proposals is the part that you prefaced, namely, that we shouldn't worry about Government spending. There are no free lunches out there. I wish there were, but there aren't. So I think it's extremely important that we go about the business of slowing the rate of rise in Government spending relative to economic activities.

Therefore, on net balance, I would not agree with that set of economic advice.

Senator RIEGLE. I appreciate your answer. I agree very much with your notion that we have to act affirmatively to bring deficits down. They are not going to go away by waving a wand.

INTERNATIONAL DEBT SITUATION

Just quickly, on the international debt situation, we are reading more stories that suggest that maybe there's slippage in terms of debtor nations finding it tougher and tougher to meet their commitments and keep the tough discipline on their economies; I am reading about Argentina and Brazil and the other nations.

And I saw the other day where apparently—correct me if this is not right—but it was reported of the nine largest banks in the country, that an amount larger than the net worth—the shareholders' net worth in those banks— is represented by outstanding loans to just four foreign countries—Mexico, Argentina, Venezuela, and Brazil.

So when I read these articles that suggest maybe we are starting to slide again on these international debts, it makes me very uneasy.

Where does that stand at this point as far as you are able to judge?

Mr. SPRINKEL. You may remember August 1982, the date when the Mexican Finance Minister came to Treasury, unable to open their doors the next Monday morning. We spent a long hard weekend at Treasury, along with the Federal Reserve and a few others, working out a temporary solution—solution is too strong. We patched it up for a brief period of time.

I remember attending the Interim-Development Committee meetings that fall, when the general view was that the international

debt situation was going to collapse and destroy—or at least threaten to destroy—the international monetary system you could have made a fairly legitimate case that that would happen, although I didn't believe it.

Here we are in 1985. Have we made progress? Yes, we have made a lot. For example, Mexico is the most obvious success, and they have done perhaps the best, and they are one of the largest debtors. They are also our next door neighbor.

Senator RIEGLE. Well, I am told you can't drive across Mexico today. That an American citizen, because the level of civil unrest and lack of law and order in that country, is now so extreme, you literally can't get in a car as a citizen and drive from one end to the other in safety. I don't know whether that is true or not. I haven't tried to do it, but that is what is generally reported to be the case.

Mr. SPRINKEL. I haven't done it either. I know I have talked to Mexican officials fairly recently, and they are rather proud of the fact that they have made this very difficult adjustment, moving from very large deficits to surpluses, getting their inflation rate down a lot—although it is still too high—changing their exchange rates in a way that provides the right signals inside the economy. They argue that they have done it without a degree of social unrest that has appeared in a few other countries.

And I think the reason they have probably done it is that the President, the Finance Minister, and other leading Mexican officials have explained to the public the kinds of things that have to be done.

Does that remove the pain? It doesn't. It is still difficult. But I think they have done a marvelous job.

Now, there are some other countries that have done a good job. There are some that are just beginning. Argentina is one where they have a new democracy. They have been in office now a little over a year, but they did not move quickly to get their inflation rate under control.

I happened to visit there, I believe, in January of last year, and among other objectives, I wanted to get a feel as to their dedication. They felt then that they couldn't make the kinds of adjustments that were necessary; they couldn't do it politically. They had problems of having promised real wage increases because the public had suffered a lot.

Now, the difficulty is that, instead of their inflation rate leveling out or coming down, it has accelerated, and we are now talking about inflation rates on the order of 800 to 1,000.

Senator RIEGLE. Is that the worst case? Would Argentina be the most worrisome situation?

Mr. SPRINKEL. It is the most difficult international debt situation, and of course it is a sizable country and it is a country in which we are very much interested. We want to support it. We met with President Alfonsin as recently as a few weeks ago when he was here, and I am convinced that they are now moving in the right direction. The IMF is sending another team back, and I expect that over time Argentina will get better.

However, I don't want to argue that they have solved their problems; they are just beginning to work seriously on their problems.

Some of the other countries are in better shape, and there are many parts of the world where debt is no problem. If you look at the Far East, many of the countries there have managed their affairs in such a way that they didn't get into too much debt; others, such as South Korea, which got into a considerable amount of debt, nonetheless have been able to service it.

Senator RIEGLE. Well, I would like to pursue it, but I can't. My time is up.

Senator HEINZ. We will come back to you.

Senator Hecht.

Senator HECHT. Thank you, Mr. Chairman.

I notice on your statement here an interesting fact. You and I both went to the University of Missouri at the same time.

Mr. SPRINKEL. Well, marvelous. What department were you in?

Senator HECHT. What department? I was a premed at the time, and I went on to Washington University and got my business degree. I was very miscast for the medical profession.

During this past week, I have been doing a lot of traveling, and I was in Texas for a large function, and I met with a lot of top people, and then I was in New York the last couple of days meeting with a lot of top people, and the No. 1 question on everyone's mind—which I did not realize because I am from the West and not back East—and you dwelled on it on page 3 of your statement. It is tax reform.

All of the business leaders—the oil and gas industry in Texas, the building industry, commercial building industry—are worried dramatically about possible changes in the tax law which will knock out the incentives for going out and borrowing money.

Would you address that? What is your feeling on the new tax laws?

Mr. SPRINKEL. Yes, sir.

NEW TAX LAW PROPOSALS

As I have indicated in the context of a different question, I am very much in favor of the modified flat tax, which does a lot of things like reducing marginal rates and reducing taxes on the poor, but which also tends to reduce over time—not overnight, but gradually over a considerable number of years—certain tax incentives to which some industries have become accustomed.

As I spent most of my life in the banking business, I am well aware that many banks don't pay a lot of taxes because they have legitimate ways of buying municipal bonds or engaging in leasing or whatever. I am well aware that some of the oil and gas industry operators have also benefited from a different set of tax provisions, and there are other industries which don't pay a lot of taxes.

This also means that industries which have not had these benefits have had to pay a higher percentage of the total tax from the corporate side.

In formulating the proposal that Secretary Regan gave to the President and released and that Secretary Baker is now discussing with the Congress, our basic view was—and I believe remains—that we should not permit the tax system to determine in a major way the allocation of savings and investment; rather, those savings

and investments should move into those sectors of the economy that promise the highest prospective rates of return irrespective of a particular tax break.

Therefore, our effort was to make the tax proposal evenhanded across the board.

Now, what is the advantage? There is some pain involved, as you suggested. But the advantage is that, over time, the economy will become more efficient; that is, we will get a better allocation of our resources; we will be able to create more jobs; we will be able to create more income. If this is done carefully and gradually, I do not believe it will be the end of the building business or the oil and gas business; but they will be put on a somewhat different footing, unless those provisions are retained.

So I am in favor of moving toward neutrality of the tax system, with respect to investment decisions because of the benefits that I believe that would have on the American economy.

Senator HECHT. The feeling was in these top people— and they are all giants in the industry, and I was very fortunate to meet with them—they take a different attitude than you do.

Mr. SPRINKEL. I am sure they do.

Senator HECHT. They feel you will stifle investment incentives. You must give a businessman incentives to go out, and many of them have said I am well off now, I am just going to play golf, I am not going to worry about it anymore. If I can't get a tax break to go out, why should I risk the capital?

And they feel it would definitely have a deterrent upon our economy and not enhance our economy.

Mr. SPRINKEL. I think we must be very careful in this process of being neutral with respect to industries not to have a net overall reduction in incentives to invest. I know Secretary Baker is exploring that question now.

Some have argued that the initial proposal the Treasury developed had a little too much penalty on incentives to invest; and I agree that we should be very careful about that.

Now, unfortunately, no one knows the future with certainty, so there are various efforts to try to measure the effect of the tax plan on the overall incentives to invest. I think Secretary Baker is very sensitive to the fact that we do not want to be a party to a tax change which, on balance, discourages investment and enterprise in the United States.

I can argue that there should be an even playing field with respect to industries, and I feel comfortable in arguing that over time we should work in that direction. However, I do not feel comfortable in arguing that we can ignore investment incentives. I think we must keep that foremost among our major considerations in any tax reform that the Congress considers and the administration agrees to.

Senator HECHT. They go on to point out that lower income housing, with the new attitude of Government to get out of a lot of these different programs, that if you stifle private initiative in this, you just will not get any low-income housing in the next few years.

How would you address that?

Mr. SPRINKEL. I am not an expert in housing, but I do believe that markets work, that if there is a demand for low-income hous-

ing, somebody will make a buck in producing that low-income housing.

Now, if you are arguing that there are situations where the income is so low that they can't afford to rent or buy it once it's been built, that is a different issue. But I do believe that builders adjust as demands change, and that if there is a legitimate demand for low-income housing, I would expect them to meet it.

I can remember the first house I bought was quite a bit less than 1,000 square feet. I suppose that was low-income housing, and there were a lot of them on the block just like it. As people became somewhat more affluent, as standards of living rose, the homes grew larger and the market did adjust. And I see no reason to believe that that won't happen in the future.

Senator HECHT. Well, in the major cities, land costs, building costs, and interest rates what they are today, people just cannot afford it without giving a basic tax incentive to go in and do that.

That's all the questions I have.

Senator HEINZ. All right. Senator Hecht, thank you. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman.

Dr. Sprinkel, as other members of the committee, I think, have pointed out prior to my arrival this morning, at one juncture last year the President suggested he might abolish the Council of Economic Advisers. Considering the bad news Dr. Feldstein continued to bring him, I suppose that reaction might have been understandable.

Has the President indicated to you either directly or indirectly what his expectations are with regard to the Council of Economic Advisers under your leadership?

Mr. SPRINKEL. Yes, sir. He expects me to build it back to full strength; to rejuvenate its activity within the Government as an important part of the decisionmaking process; and to try to attract some of the best economists in the country to work with me. I have been assured that I will have regular and frequent access to the President. So, I have no doubt about the commitment of the President or of Mr. Regan, who is Chief of Staff, concerning that particular issue. Otherwise, I would not be appearing before you today, because, as I indicated previously, I would have preferred to have gone home or stayed in my present job.

Senator SASSER. Let me ask you this question. Dr. Feldstein was a bearer of bad news or bad tidings. Do you have any concern about taking bad news to the President on occasion?

Mr. SPRINKEL. I have no concern whatever about telling the President what I honestly believe and think, and I will do so, whether it is good news or bad news. The President can stand some bad news once in a while; I have seen him receive bad news in the past. I am hoping most of the news will be good news; but that wasn't the question you asked. I have no concern about doing that; I will do my honest best, as I always have in the past.

Senator SASSER. Last Wednesday, Dr. Sprinkel, Martha Seger, appeared before this committee as a sitting Governor of the Federal Reserve Board and as a nominee for a 14-year term in that position. And among other things, she repeated her assertion, which appeared in the press some months ago, that the economy could

grow at a rate of 4 to 5 percent through the end of this decade without risking inflation.

GROWTH RATE OF 3 PERCENT

Do you agree with this assessment?

Mr. SPRINKEL. First, it is important to know how much we have grown in the past, which did include some inflation. I think if you take a long view of that trend, it's closer to 3 percent than it is to 4 or 5. However, it has varied somewhat decade by decade. If in the very long-term, the growth rate is 3 percent, given the efforts of the administration and the Congress over the past 4 years to encourage incentives to save, invest, reduce regulation, and encourage innovation, I think there is reason to believe that the prospects for productivity improvement—which is a large and important part of that growth are very good.

From the limited studies we have made, you can't conclude very much, but the evidence over the past 2-plus years is that productivity has been rising at a more rapid pace than it did, say, in the prior decade. Therefore, you can say quite freely, I think, and with considerable confidence, that you can do better than 3 percent; I think it is reasonable to believe that you can get numbers as high as 4 percent.

To move on up to 5, I think there would have to be significant further improvement in those incentives. It depends on what kind of price we want to pay. If we want to shrink Government further and move more resources into the private sector, create more incentives over time to save and invest, we can improve our growth rate further. But I think 5 percent is not a sustainable rate of growth under present circumstances, while 4 percent, I think, is achievable.

Senator SASSER. She was talking in terms of 4 or 5 percent rate of growth through 1995, without inflation, and I find that difficult to believe, to sustain that rate of growth over a period of a decade or more without running a very high risk of fairly severe inflation.

Do you agree with that assessment?

Mr. SPRINKEL. I would not want to bet on 5 percent. I think that is on the high side of a reasonable guess. I feel confortable with 4 percent. I am quite confident we can do better than 3 percent, and I would hope that that would be achieved, not by continuous acceleration in demand, but by maintaining moderate growth in money, and doing those things on the incentive side that would release resources to produce. In that event, I think we can readily achieve 4 percent. So I don't think 5 percent, under present circumstances, is a good bet. I wouldn't bet on it if I were in the private sector and, therefore, I can't bet on it here.

Senator SASSER. Well, I agree with that assessment. Dr. Sprinkel, you have been known as a strong monetarist and probably the strongest monetarist in the Treasury Department while you were there, and I am sure you have watched the growth of the money supply carefully over the past few years. Do the rates at which the money supply has grown over the past 2 or 3 years portend new rounds of inflation, in your judgment, in the near future, or if we

continued to allow the money supply to grow at the rate it has grown, are we running the risk of firing up inflation once again?

Mr. SPRINKEL. The Federal Reserve has made some progress over the past few years in reducing the rate of growth in the money supply, but that progress has not been enormous. It's been modest.

Senator SASSER. 12 percent last year?

Mr. SPRINKEL. Not for the year as a whole. From May through about October we had only about 1 percent growth; then it accelerated. Early last year, it was very high. It was volatile during the year, but for the year as a whole, the growth in M1 was 6.6 percent. If you look in earlier periods, for example 1976–80, the growth in M1 during that period was 7.8 percent. So it's down a little, but it hasn't come down enormously. It's my own view that, over time, if we are first to preserve the inflation rate we have and not let it get higher, but second, to pull it gradually on down further, that will require less than 6.6 percent growth in money.

We do not know for certain what the velocity will be, my own guess is somewhere on the order of 2 to 3 percent per year. Therefore, if we're to get to an inflation rate of 1 or 2 percent or even to zero, which is the President's objective, and which I certainly support, it will require substantially less growth in money.

GRADUAL DECELERATION

Now that doesn't mean weaker economic activity. I want to make that clear. I am not suggesting we should go from 6-percent money growth to 1 percent overnight. I am talking about a very gradual deceleration over a period of time, and I think that can be achieved while sustaining growth and lower unemployment. Money has something to do with inflation over the longer run; it has very little to do with growth over the longer run. It is more fundamental factors like saving, investing, and working, that determine growth.

Senator SASSER. One of the hallmarks of your career at the Treasury Department, Dr. Sprinkel, has been, as I understand it, your outspoken opposition to allowing the Federal Reserve to intervene in international currency markets. If that's a fair assessment, that is a matter of some concern to some of us. We see our unfavorable balance of trade running in the neighborhood of $130, $140, $150 billion. We see our farmers unable to compete on the world market with their products. Indeed, we see many of our primary industries unable to compete on world markets, because of what I view, quite frankly, as the overvalued U.S. dollar, and the dramatic and sustained rise of the dollar valuation has created severe dislocations in our own economy.

The Fed has been intervening, or recently there have been some interventions at the direction of the Treasury, and the dollar has declined somewhat in the past 2 weeks.

Now how do you view these recent intervention efforts on the part of the Fed, and would you encourage that, as head of the Council of Economic Advisers, in an effort to bring the value of the dollar down?

Mr. SPRINKEL. First, let me say that I share your concern about the export potential of some of our industries and how the strong

dollar has been adverse to their desire to export. In addition, the slow growth abroad, which has reduced their imports, has limited our capacity to export. Now that's a very fundamental issue about which I would be very glad to talk, but you have asked about intervention, and let me return to that.

We have a lot of evidence on whether or not intervention works. I have been living all my life under either an advantage or a disadvantage of being from Missouri; I think it is an advantage. They have a motto down there that says "Show me." Therefore, when I try to formulate my beliefs, I try to do my best to look at evidence, not always successfully I'm sure, but at least I try. When I first came to Treasury something over 4 years ago, to my amazement, massive intervention was going on daily. I had to approve it, and I soon stopped it until we had a chance to look to see whether or not it had any effect.

We did a quick study of the sizable amount of intervention that had been done, and we couldn't see that it had had much of an effect on the level of the dollar. However, it did have an effect on order or disorder in the market.

Subsequently, at the Versailles Summit, at my suggestion, Secretary Regan urged the finance ministers to take a look at the vast amount of data that had never been analyzed on intervention. It had started at the time the Bretton Woods system began to fall apart in the early 1970's and had continued until that meeting about 3 years ago. Secretary Regan proposed that we try to see if there was any evidence that all the intervention that had occurred had had an effect on the equilibrium levels of currencies; that suggestion was agreed to by the heads of state at that summit.

As a result the ministers of finance, along with a member from the central bank, set up individuals to study that issue. The reason, incidentally, that it had not been previously studied was that the data was locked up by our governments, and the academics could not get to it; and of course, the governments were too busy to analyze it. Therefore, nothing had been done.

Now after intensive effort for about a year by the seven summit nations, the conclusion came out very clearly that in the past intervention had not affected equilibrium levels of exchange rates.

MARKET—$100 BILLION A DAY

Now if you will back up a moment, I think you can see why. The dollar market is enormous. We have asked the New York Fed how big it is, and they don't know for sure, and I certainly don't know for sure. But their best guess is that it's on the order of $100 billion a day. Not a month, not a year—a day; $100 billion a day.

Now to believe that finance ministers and central bank governors around the world, even when working together, can come up with big bucks on that order of magnitude that can permanently change the level of a currency is to believe, I think in an unreasonable probability.

Does that mean we never intervene? It certainly doesn't mean that at all. We have agreed to do so on occasion. Intervention can restore order in temporary situations of disorder. We have agreed to intervene cooperatively with other central banks in such situa-

tions and we recently did so, as the New York Fed recently stated in their public release.

The intervention during that recent period by all the central banks was on the order of $11 billion—remember that in the context of $100 billion a day. This extended over a few weeks. The central banks altogether spent about $11 billion. Obviously, the evaluation differs. I looked at it very carefully from the time the intervention started until it ended, and during that period most of the time, the dollar continued to go up. I therefore concluded that it didn't prevent the dollar from rising.

Now others said, "but it gave a signal to the market;" and maybe what's happened in the last 2 or 3 weeks has had something to do with that intervention. It certainly had something to do with the slower growth evidenced by our first quarter numbers and it also had something to do with the difficulties that have been experienced by the savings and loans in Ohio. In any event, the dollar has come down somewhat.

But I hope you won't be concerned when I advise that we should not encourage direct intervention. The reason I will advise that is, it won't work. There are, however, some things that can be done at this time to improve the currency system. I am a member of the G–10 deputies who have been working on this for 1½ years. We expect to complete that study by mid-1985. I think we will have some suggestions that will contribute to improved stability; but it will not include sizable intervention, because that just doesn't work.

Senator SASSER. Mr. Chairman, my time has expired. If I can ask one more quick question?

Senator HEINZ. Please proceed.

Senator SASSER. Dr. Sprinkel, in your judgment, what is the problem of overvaluation of the U.S. dollar, if you agree it is overvalued, and what do you anticipate will occur in the short term?

By that I mean over 12 or 14 months with regard to the overvaluation of the dollar.

Mr. SPRINKEL. Well, first, I am not quite sure what overvaluation means because that implies that you know what the right value is. I certainly would agree with you that the dollar is of a high value. It is higher than it has been for a long period.

The question is, Why did the dollar go up? Historically, there have been at least two important theories as to what causes exchange rates to change over time. One has to do with the purchasing power parity theory, which has been around much longer than I have. It says, in essence, that the country that makes the most progress in getting its inflation under control vis-a-vis their major trading partners will enjoy a strong currency and those that have the least progress will enjoy weak currencies. And there is a lot of truth to that argument.

In the first 2 years of the Reagan administration—1981–82—you could argue, as I did, that the United States had made more relative improvement in its inflation rate than had other currencies which therefore had contributed to the improvement in the dollar. And I think that was correct.

However, if you look over the last year or two, other countries—I am talking about developed countries now, the ones with whom we

have the greatest volume of trade—also have improved their inflation rates. The French are now getting into lower inflation numbers; the Italians are coming down; the Canadians have come down; the British and the Germans.

Therefore, I don't think that changes in relative purchasing power explain what happened over the past couple of years. The dollar has continued to rise despite the fact that we have had a large and growing trade deficit, despite the fact that our interest rates have come down, and despite the fact that interest rate spreads have narrowed compared to other countries.

The other theory that is frequently cited is that higher U.S. interest rates and interest rate spreads have caused the dollar to go up. Yet, if you track interest rate spreads against the dollar, sometimes that theory is consistent, and sometimes it isn't.

For example, the last several months it has not been. The dollar went up anyway, even though interest rates came down and interest rate spreads came down.

In a nutshell, the dollar has continued strong. The performance of our economy has been vastly superior to the performance of most of our trading partners; the prospects for our performance are better than theirs; and when individuals have been asking themselves where they want to put their money, they want to go where there is political stability. Fortunately, many of our partners have political stability. But investors also want to go where there is a prospect that they will get a good rate of return; and in my judgment, that is the bottom line.

Even though interest rates have come down, even though our trade deficit and current account deficit have risen, there has been great confidence in the dollar. How do we get out of this?

ENCOURAGE GROWTH

One way is to encourage growth in our major trading partners. We have been doing that. They have not permitted their markets to work nearly as efficiently as we have. They use the word "structural rigidity" to describe these inefficiencies. Their unemployment rates are very high; they haven't increased the size of the job market in Western Europe for well over a decade. In fact, they have lost over 1 million jobs in that period, we have created 7 million in the last 2 years alone.

However, there are a lot of things they can do; they are becoming concerned, and they are beginning to do them. As their performance, relative to our own, improves—and it is beginning to—I would expect the dollar to drift down. But to tell you when would be to predict something I don't know. If I did, I believe the Government would get into the foreign exchange market. But I don't know anyone who wants that.

I do think there is reason to believe that the dollar will drift down. But I do not want to see it happen by destroying our economy, by returning to high inflation; I don't think any of us want that.

Senator SASSER. Thank you, Dr. Sprinkel.

Senator HEINZ. If there are no further questions, Dr. Sprinkel—Beryl—the hearing is adjourned.

Mr. SPRINKEL. Thank you, sir.
[Whereupon, at 10 a.m., the hearing was adjourned.]
[Biographical sketch of the nominee follows:]

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: SPRINKEL (LAST) BERYL (FIRST) WAYNE (OTHER)

Position to which nominated: Chairman, Council of Economic Advisers Date of nomination:

Date of birth: 20 (DAY) Nov. (MONTH) 1923 (YEAR) Place of birth: Richmond, Missouri

Marital status: Married Full name of spouse: Barbara Angus Sprinkel

Name and ages of children: Gary Lynn Sprinkel 34 SD Pamela Serbin 33
Kevin Glen Sprinkel 26 SD Debra Pipher 31

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Holt High School, Holt,Mo.	1937-41	HS Diploma	1941
NW MO State Teachers College, Maryville, Mo.	1941-43		
U of Oregon (while in military service)	1943-44		
U of Missouri, Columbia,Mo.	1946-47	B.S.	1947
U of Chicago, Chicago,Ill.	1947-48	M.B.A.	1948
U of Chicago	1949-52	Ph.D.	1952

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

NW Missouri State Teachers College Valedictorian Tuition Scholarship 1941

NW Missouri State Teachers College Vocal Scholarship 1942

NW Missouri State Teachers College Violin Scholarship 1942-43

Univ of Chic University Fellowship 1949-50

Univ of Chic A.G. Becker Fellowship 1951-52

Univ of Missouri and Univ of Chicago Beta Gamma Sigma
DePaul University, L.H.D. 1975
St. Michael's College, L.L.D. 1982

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Chicago Chapter American Statistical Ass'n.	Pres.	1955-56
Am Bankers Ass'n Econ Adv Cmte	Chrm	1974-76
US Chamber of Comm Fiscal Pol & Gov Opr Cmte	Chrm	1976
Bd of Education, Homewood High	Pres.	1958-59
American Econ Ass'n. Fin Cmte	Chrm	1971-78
Univ of Chic Visiting Cmte	Mbr	1978-81
Univ of Mo. Dean's Adv Cmte	Mbr	1968

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

Under Secretary, Dept. of Treasury, Wash. D.C.	1981 to present
Harris Savings & Trust, Chicago, Ill. Final Rank: Exec. VP & Economist	1952 to 1981
Instructor, Univ of Chic Grad School of Business	1949 to 1952
Instructor, Univ of Missouri Business & Public Admin.	1948 to 1949
Teaching Ass't, Univ of Missouri, Sch of Bus & Pub Adm	1946-47

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

Under Secretary of the Treasury for Monetary Affairs 1981 to present

President and Board Member, Homewood Flossmoor High School

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Auth: Money and Stock Prices, Richard D. Irwin, Inc. 1964
Auth: Money and Markets: A Monetarist View. Dow-Jones-Irwin, Inc. 197
Co-Auth with Robert Genetski: Winning With Money, Dow-Jones-Irwin 1977
Economic Consequences of the Operations of the Reconstruction Finance Corp. JB, Oct. 1952
Monetary growth as a cyclical predictor. JF, Sept. 1959
Outlook for the government bond market. JF, May 1960
Monetary policy, balance of payments, and financial markets. JB, Jan. 19
Relative economic growth rates and fiscal monetary policies. JPE, Apr 19
1965 Economic and financial prospects. JB, Jan. 1965
Economic achievements, problems and prospects. JB, Jan. 1966
The business outlook for 1967. An end to economic euphoria. JB, Jan. 19

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Several public debates for Pres. Ford against Jimmy Carter

Numerous speeches for President Reagan against Jimmy Carter

Numerous speeches for President Reagan against Walter Mondale

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

Many smaller contributions to Republican candidates including Charles Percy and Edward Derwinski. None above $500.

Qualifications: State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

   Yes

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

   No

3. Has anybody made you a commitment to a job after you leave government?

   No

4. Do you expect to serve the full term for which you have been appointed?

   Yes

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None. Have blind trust with Harris Savings & Trust who manages assets

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None.

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, or behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None except officially in connection with position of Under Secretary for Monetary Affairs, Dept. of the Treasury

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

None

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

Following are listed my academic credentials, work experience, publications, membership in relevant professional organizations and U.S. Government service which qualify me to assume the position of Chairman of the Council of Economic Advisers:

I have a B.S. Degree in Public Administration from the University of Missouri (1947), an M.B.A. Degree with a major in Finance from the University of Chicago (1948), and a Ph.D. in Economics and Finance from the University of Chicago (1952). I also have a Chartered Financial Analyst degree from the Institute of Chartered Financial Analysts, an honorary Doctor of Human Letters Degree from DePaul University, and an honorary Doctor of Laws Degree from St. Michael's College.

I am the author of two books, and the co-author of a third, on the effects of monetary policy on financial markets and the economy; I have also written numerous articles on this and other economic subjects.

Prior to joining the Treasury Department in 1981, I taught economics at the University of Missouri School of Business and Public Administration (1948-49) and taught economics and finance at the University of Chicago (1949-52). I then joined the Harris Trust and Savings Bank (Chicago, Illinois) where I worked until 1981, becoming Executive Vice President and Economist in 1974. During these 28 years, I was also the Director of Harris Economics, an economic and financial forecasting service published by Harris Trust; a member of Time Magazine's Board of Economists; Chairman of the Economic Advisory Committee of the American Bankers Association; a member of the Board of Directors of the U.S. Chamber of Commerce; a member of the American Economic Association (Chairman of the Finance Committee 1971-78); a member of the American Statistical Association (President of the Chicago Chapter 1955-56); a member of the Conference of Business Economists; a member of the National Association of Business Economists (Fellow 1972); a member of the Mayor's Council of Manpower and Economic Advisors (1972-75); a member of the Economic Advisory Board to the Secretary of Commerce (1967-68); a member of the Program Committee of the International Monetary Conference (1964, 67-69); a member of the Chicago Economics Club; a member of the Mont Pelerin Society; a founding member of the Shadow Open Market Committee; and a frequent consultant to various government agencies and Congressional committees.

I have served as Under Secretary for Monetary Affairs in the Treasury Department since January 1981. During this time, I have been responsible for formulating and implementing U.S. international financial and credit policies; developing U.S. policy toward the international financial institutions, such as the World Bank and the International Monetary Fund; financing and managing the federal debt; establishing Treasury financial policies; and coordinating between the Administration's economic policies and the monetary policies of the Federal Reserve System.

Some of the major accomplishments for which I have been responsible during the last four years included: heading the U.S. team which negotiated the yen/dollar agreement with the Japanese to open their capital markets and internationalize the yen; serving as one of the three Summit planners (Sherpas) for five economic summits of industrial nations and one summit of developed and developing nations, which involved complex international discussions of each country's macro economic policies and programs; managing the international debt crisis, assisting countries on a case-by-case basis and ensuring the stability of the international monetary system. (This has involved two stages: the first stage, involving initial country liquidity crises, which were managed by assisting the debtors in obtaining short-term government loans, entering into IMF programs, getting increased bank loans, rescheduling existing loans, and implementing domestic adjustment programs; and the current stage, involving enhanced surveillance and multi-year reschedulings for those debtor countries with records of proven performance.); initiating at the Versailles Summit and then establishing the multilateral surveillance exercise with the Managing Director of the IMF, which has contributed to increased understanding by the major currency countries of each other's policies and to policy convergence around low inflation and sustained economic growth; engaging in frequent detailed discussions with finance ministers and central bank governors from the world's major developed and developing nations, explaining U.S. economic policies and discussing their monetary and fiscal policies, both in bilateral and multilateral fora (the latter including the Working Party 3 of the OECD, the Group of 10 Deputies, and the Interim and Development Committee meetings of the IMF and World Bank); supervising the Treasury's role in deregulating interest rates and financial services under the guidance of the DIDC, broadening the permissible range of services provided by savings institutions, and concluding studies on strengthening the banking system and strengthening the bank regulatory system; redesigning the savings bond, making it a more attractive market-related investment and increasing sales; and continuing to finance the massive federal debt without market disturbance, thus contributing to lower interest rates.

I am fully supportive of President Reagan's market-oriented philosophy and his economic policy of keeping inflation low through stable monetary policy and increasing economic growth by incentive-oriented fiscal policies. In conclusion, I have a thorough knowledge of macro and micro economic policies, which I have developed both through academia, business, and government.

○